

Investing in Student Success Act of 2014

Senator Marco Rubio and Rep. Tom Petri

What's the problem?

- Many students struggle to obtain enough financing to pay for college (even with federal loans), and many others are saddled with unaffordable payments after graduation.

What does the bill do?

- The bill would expand access to a new and innovative private financing option to help students pay for postsecondary education.
- Specifically, the bill would create a legal framework, including consumer protections, where individuals or organizations can provide students with money for school in exchange for the student agreeing to make payments linked to their income for a set period of time after graduation.
- Students would have no loan balance to repay, so some students might end up paying less than the amount given to them and others more, depending on post-graduate earnings.
- These plans would serve as an alternative or supplement to student loans.
- Bottom line: These plans would help all students get the financing they need – including students from disadvantaged backgrounds – but without the anxiety that comes with traditional loans.

Why is this needed?

- These ideas were recently discussed in a [report](#) published by the American Enterprise Institute (AEI). One of the recommendations of the report was for Congress to create a legal framework that would provide investors with clarity regarding tax treatment, consumer disclosures, and other relevant aspects of these contracts.
- While there are a few small companies operating in this market, the report argues that the lack of legal clarity has prevented the growth of these financing options on a wide scale.

Are there other benefits to these financing tools?

- The AEI report also highlights the potential for these financing tools to help address the issue of college costs. It argues that investors will likely offer more generous terms to students for higher quality institutions and programs or for fields that are in high demand in the workforce.
- By helping students navigate to programs that will set them up for success, these tools would likely put pressure on institutions to cut costs and improve quality.

What are the specific elements of the legal framework created in the bill?

- Purpose: Make clear that these types of contracts are enforceable so long as they are consistent with the requirements of the bill.
- Consumer Protections: Requires that income share agreements conform to the following:
 - The first \$10,000 of an individual's income must be exempted when calculating his or her obligation.
 - The contract must disclose the definition of income used.
 - No individual may commit more than 15% of income for any combination of income share agreements.
 - The maximum length of time for an obligation is 30 years.
 - The contract must specify under what circumstances the student can terminate the contract before the end of the payment period.
- Disclosures: Individuals and organizations providing funds to students must disclose clearly the terms of the contract outlined above.
- Freedom of Action: The bill makes clear that these contracts do not give the contract holder any rights over the individual's actions. The contract simply represents an obligation by the student to make payments linked to income for the defined term.
- State lending laws: The bill makes clear that state usury laws should not be applied to these contracts because they are not debt instruments (in the sense that they have no principal balance or interest rate) and graduates are always guaranteed to have affordable payments.
- Tax Treatment: The bill clarifies that the funds students receive through an income share agreement to pay for their education should not be treated as taxable income. It also clarifies how the proceeds investors receive through these contracts would be taxed.
- Bankruptcy: The bill treats income share agreements in the same manner as student loans with respect to bankruptcy. Income share agreements have no principal balance or interest rate and are always guaranteed to be affordable, so they have built-in protections for students that traditional loans do not.
- Federal Financial Aid: The bill clarifies that funds received by a student through an income share agreement should not affect a student's eligibility for federal financial aid programs.
- Securities Regulation: The bill clarifies that holders of income share agreements should be treated similarly to holders of loans for securities law purposes, not as holders of securities.